



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the Cavanaugh's Best Western in Twin Falls, Idaho at 9:30 a.m., June 26, 2001. The following members were present:

Jody B. Olson
Susan K. Simmons
J. Kirk Sullivan

Trustees Pamela I. Ahrens and Dennis L. Johnson were absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Brian McGrath	DB Fitzpatrick & Co.
Drew Black	DB Fitzpatrick & Co.
Phyllis Lamm	Gooding #231
Charles Copps	Twin Falls Housing Authority
Cathy Rice	Twin Falls Canal Company
Sandy Shaw	Twin Falls Canal Company
Henry Jones	College of Southern Idaho
Jerine Smith	Kimberly School Dist. # 141

Chairman Olson opened the meeting by welcoming the members from the Magic Valley. He introduced the Trustees and staff. Trustee J. Kirk Sullivan has just been reappointed by Governor Kempthorne to a second five-year term on the Board. Chairman Olson has served for fourteen years, seven of those as PERSI Retirement Board Chairman.

OLD BUSINESS:

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Simmons, the Board unanimously approved the minutes of the May 22, 2001 regular meeting of the Retirement Board.

PORTFOLIO

Monthly Portfolio Mr. Maynard reviewed his June 26, 2001 PERSI Investment report which contained the following CIO Comment:

“The current earnings reporting cycle has not produced optimistic news. Most companies have reported continuing deterioration, and the mood generally has pushed recovery expectations back to the fourth quarter of this year. As a result, the equity market is down around 2.5%-4 this month. The Fed is expected to ease between 25 and 50 basis points this month.

The portfolio is still in a slightly defensive position. Over the past months, the portfolio has captured about 90% of the market return – good when the market declines (thus we only lose .9% for every 1% market decline), but that also means that we will not capture any near term sudden market rises. Growth styles are still suffering, with Columbus Circle recently having the worst relative performance.”

Mr. Maynard reviewed his report, commenting that when the economy rebounds, because corporate profits may not come back as quickly and be visible to investors, the stock market may not rebound at the same speed. Explaining that PERSI does not attempt to “pick stocks,” he told the group that we make sure we are participating in the markets and are diversified to cut off the downside of market declines, while capturing as much as the upswings as we can.

In response to a question from Chairman Olson, Mr. Maynard said the PERSI fiscal year is ending this week on June 30, and this is not another gain sharing year. He said it is fortunate for members, retirees and employers that the Board declared a gain share last fiscal year, because if the Board had waited, the current downturn in the market would have used up the excess. The Board has set 13% above 100% funded as a reserve guideline for considering gain sharing. This allows the fund to absorb market volatility by one market standard deviation. This year is a good example of why the reserve is needed. We started with 113% funding which was approximately a \$900 million cushion. We have experienced the worst markets in a generation – since the 1970’s. We are currently showing a negative 6.4% return; if we can get to negative 5%, we will still be 100% funded. If we had not built in the reserve, we would be considering raising contribution rates. Mr. Maynard said the reserve has served its purpose. It may be a few years until the reserve is again built up so gain sharing can be considered. Mr. Maynard said this has been a great stress test for the current policies and allocation of the fund. All of the Board investment policies are working as designed.

Mr. Maynard said the returns of Mountain Pacific, based in Boise, Idaho, are 28% ahead of their benchmark. Representatives from Mountain Pacific were present at the meeting. Value-oriented managers are doing well, while growth managers are having a more difficult time in this market. Mr. Maynard does not expect major rebalancing of the allocations before the end of the fiscal year and expects the assets to be around \$6.75 billion.

He told the Board that most of the PERSI assets are in publicly traded stock, with some private real estate through the Idaho commercial mortgage program and about 2.4% of assets invested through partnerships in privately held companies. On Friday, June 22, the Private Equity Committee met and approved Apollo, Highway 12 Ventures L.P., and Sawtooth Ventures L.P.. Highway 12 and Sawtooth will provide a focus on Idaho-based privately held companies.

Mr. Maynard concluded his presentation saying that while he is not happy about the poor and volatile markets this year, he is happy with the performance of the PERSI fund in such a climate.

Other Investment Business: Chairman Olson opened the floor to comments from managers who were attending the meeting. Brian McGrath praised the PERSI asset allocation,

saying participants should be grateful that in today's market, the fund is down only 6.4% . He echoed Mr. Maynard's comments that this period compares to the 1973-74 market, the worst period in a generation. He discussed the expected interest rate cut by the Federal Reserve Board and said the tax cut (refunds) will take time to filter into the economy but should have a psychological effect. He expects to see market recovery in the next two quarters.

LEGAL:

Pending Rules for Gain Sharing Deputy Attorney General Brad Goodsell reviewed his memorandum to the Board dated June 19, 2001. After discussion, by motion duly made by Trustee Sullivan, seconded by Trustee Simmons and unanimously approved, the Board adopted as pending rules, the temporary and proposed rules as revised. The notice and amendment will be published in the September 2001 Idaho Administrative Bulletin.

Choice Plan Amendment: Four amendments to the PERSI 401(k) plan were discussed including distribution options, minimum distribution rules, interest rate on member loans and hardship withdrawals. By motion duly made by Trustee Simmons, seconded by Trustee Sullivan and unanimously approved, the Board adopted the proposed amendments to the PERSI 401(k) plan effective July 1, 2001.

FISCAL

Expense Reports: Financial Officer James Monroe reviewed the Portfolio and Administrative Expense Reports for the month ended May 31, 2001. There was some discussion of the encumbrance of funds for projects for which we have contracted, but for which services have not been completed. These include the on-line guidelines, data cleanup, Galena issues related to implementation of Gain Sharing and the third-party disability vendor charges. Trustee Sullivan asked why these were not completed in the fiscal year where they were budgeted, saying it appears to be a tremendous balance of pending projects. Mr. Monroe said delays in the Galena project pushed these projects back and the need to implement Gain Sharing by February 1, 2001 strained resources and workloads of the staff. Mr. Winkle said he and Mr. Monroe discussed with our DFM analyst whether to encumber the funds or to request them again in the next budget; it was determined that encumbering the funds was the proper way to proceed under the state system. Trustee Simmons asked for copies of the letters and summary regarding the encumbrances that were provided to DFM; Mr. Monroe will get copies to her.

In regard to the Portfolio expense report, Mr. Monroe noted that expenses are well within the budgeted amount of 50 basis points, being at 37 b.p. on May 31. The Chairman asked if all the legal expense were charges from Foster Pepper. Mr. Maynard and Mr. Monroe said they also include fees for setting up gain sharing. Deputy Attorney General Goodsell added that consulting regarding unitization of the fund and disclosure were also part of these fees. Carol Calhoun of Washington D.C. provided national counseling on plan issues. Mr. Maynard said we are using local counsel for local issues such as the Idaho Commercial Mortgage program.

EXECUTIVE DIRECTOR

Decision to Merge the Idaho Super Saver Plan Referring to his memorandum to the Board dated June 19, 2001, Mr. Winkle told the Board that with their approval, on October 1, 2001, the Idaho Super Saver Plan and the Choice Plan will be merged. Dreyfus/Mellon has provided mapping options where funds from the Idaho Super Saver S&P 500 investment option

are moved to the Choice Plan S&P 500 investment option. It appears the Controllers Office will take the deferral percentage currently being allocated into the Idaho Super Saver and automatically switch it to the Choice Plan, avoiding cumbersome paperwork by the employees.

In July, Idaho Super Saver members will receive a letter explaining this transfer process. By motion duly made by Trustee Sullivan seconded by Trustee Simmons and unanimously approved, the Board affirmed the merging of assets from the Idaho Super Saver Plan to the PERSI Choice Plan effective October 1, 2001.

Federal Pension Reform: Mr. Winkle distributed handouts of his presentation regarding the impact on PERSI of the Federal Pension Reform. Starting in calendar-year 2002, several beneficial changes will be effective. Included is greater portability of assets among 401(k), 457, 403(b) and 401(a) plans. Upon termination, members will be able to move funds between these types of plans; most are optional on the part of the plan sponsor. There are higher limits for contributions to DC and DB plans and a catch-up provision for members over age 50. An income tax credit for low to middle-income savers is an especially beneficial result of this change and will encourage our lower-salaried employees to contribute to their plans. Chairman Olson said staff should find ways to publicize this to our members. Mr. Winkle said Deputy Attorney General Goodsell would be attending a national gathering of pension attorneys and will have more clarification on this new law. Mr. Winkle said this law will be a good thing for PERSI members and will cause some complications and changes for PERSI. Mr. Winkle expects to have an analysis of changes we need for the Board at the August meeting. Legislative ideas are due at DFM on August 1, so we will contact Board members individually and discuss as a group on August 21. He agreed with Chairman Olson that education about the changes is extremely important; we must teach members how to develop their financial plan and investment techniques to get the dollars into retirement accounts early to work for them.

Status Update: The Board had previously received the monthly status memo that summarized the projects in which PERSI is involved. We expect to have some of our larger employers using the electronic fund transfer (EFT) process beginning July 1, The State of Idaho Controller's Office will be ready August 1. The education program is progressing as the trainers work with employers to hold on-site educational programs for the employees. Choice Plan members are beginning to receive enrollment kits to begin payroll deductions and explaining the various fund choices. Only a few members are moving their funds from the Total Return Fund. Activity has doubled to the voice response and call center staffed by ETI. Enrollment kits are being mailed to member homes whenever we have the addresses; otherwise, they are sent to the employer individually addressed to the member.

The data warehouse used to produce the actuarial data and annual statements is being enhanced along with the format. These modifications will provide more accurate reporting on statements this year. Both internal staff and contractors are working on this project.

ETI, the Choice Plan educational contractor, will be loading a sophisticated retirement modeling tool on their site which will use data from a particular individual's base and choice plans to project retirement income streams. It should be on the site in July.

In addition to the data clean-up project, we are also working to find nearly 10,000 unvested members who been terminated more than three years, yet still have their money in PERSI. We are searching for these members to refund their money as required by our law.

Adjournment: Chairman Olson noted that the next meeting will be August 21, the July meeting having been cancelled. There being no further business to conduct, by motion duly made by Trustee Sullivan, seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 11:05 a.m.

FUTURE BOARD MEETINGS

Tuesday, August 21, 2001, 8:30 a.m., Boise - PERSI office
Tuesday, September 25, 2001, 8:30 a.m., Boise - PERSI office
Tuesday, October 23, 2001, 8:30 a.m., Boise - PERSI office

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director